ALJ/KK2/vm2 PROPOSED DECISION Agenda ID # 14156
Ratesetting

Decision ________________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY (U902M) for authorization to: (1) issue Debt Securities in an aggregate principal amount up to $1 billion of debt capital, in addition to previously-authorized amounts; (2) issue Roll-Over Debt Securities in an aggregate principal amount up to $300 million of debt capital, in addition to previously-authorized amounts; (3) include certain features in the Debt Securities or to enter into certain derivative transactions related to underlying debt in order to improve the terms and conditions of the debt portfolio and with the goal of lowering the cost of money for the benefit of ratepayers; (4) hedge planned issuances of Debt Securities; and (5) take all other necessary, related actions.	Application 14-09-008 (Filed September 10, 2014)

DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY TO ISSUE DEBT SECURITIES OF UP TO $1 BILLION AND ISSUE ROLL-OVER DEBT SECURITIES OF UP TO $300 MILLION

TABLE OF CONTENTS

TABLE OF CONTENTS

DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY TO ISSUE DEBT SECURITIES OF UP TO $1 BILLION AND ISSUE ROLL-OVER DEBT SECURITIES OF UP TO $300 MILLION

Summary

This decision grants San Diego Gas & Electric Company (SDG&E) the authority to: (1) issue debt securities in an aggregate principal amount of up to $1 billion in debt capital, in addition to the previously-authorized amounts; (2) issue roll-over debt securities in an aggregate principal amount of up to $300 million in debt capital, in addition to the previously-authorized amounts; (3) include certain features in the debt securities or to enter into certain derivative transactions related to the underlying debt in order to improve the terms and conditions of the debt portfolio and with the goal of lowering the cost of money for the benefit of the ratepayers; (4) hedge planned issuances of debt securities; and (5) take other necessary and related actions. This decision closes the proceeding.

The authorization granted in this decision supplements the unused authority previously granted by the California Public Utilities Commission in Decision (D.) 12-03-005, D.10-10-023, D.08-07-029, D.06-05-015, D.04-01-009, and D.93-09-069.

1. Procedural Background

The California Public Utilities Commission (Commission) previously issued Decision (D.) 12-03-005, D.10-10-023, D.08-07-029, D.06-05-015, D.04-01-009, and D.93-09-069 and authorized San Diego Gas & Electric Company (SDG&E), *inter alia*, to issue debt securities.

On September 10, 2014, SDG&E filed Application (A.) 14-09-008 (Application) requesting authorization for additional long-term financing to continue to fund its capital expenditure plan, beyond what was authorized by those prior decisions. No protest has been filed.

2. SDG&E'S Application

In A.14-09-008, SDG&E requests additional long-term financing authority, beyond what was previously authorized.[1] Specifically, SDG&E's Application is predicated on the comparison, summarized in Section 3 of this decision, which illustrates SDG&E's remaining long-term debt authorities, anticipated needs, and the anticipated shortfalls of: (1) $1 billion in additional long-term debt financing authority through 2017, and (2) $300 million in additional roll-over long term debt authority.

SDG&E therefore requests authorization to: (1) issue debt securities in an aggregate principal amount of up to $1 billion of debt capital, in addition to previously-authorized amounts; (2) issue roll-over debt securities in an aggregate principal amount of up to $300 million of debt capital, in addition to previously-authorized amounts; (3) include certain features in the debt securities or to enter into certain derivative transactions related to underlying debt in order to improve the terms and conditions of the debt portfolio and with the goal of lowering the cost of money for the benefit of the ratepayers; (4) hedge planned issuances of debt securities; and (5) take all other necessary, related actions.[2]

---

[1] D.12-03-005, D.10-10-023, D.08-07-029, D.06-05-015, D.04-01-009, and D.93-09-069 previously authorized SDG&E, *inter alia*, to issue debt securities.

[2] SDG&E notes that volatility in its capital investment projections are subject to substantial changes from year to year as business conditions and regulatory/legislative requirements evolve. Thus, in considering SDG&E's estimates, SDG&E urges the Commission to consider the variability inherent in the financial planning process and points to some of the more recent

Footnote continued on next page

As its principal justification for the Application, SDG&E presents its 2015 – 2017 capital expenditure plan[3] (Plan). The Plan includes significant investment of approximately $3.4 billion during that period to, among other things:

(1) Address risk reduction in safety, wildfire, reliability, infrastructure integrity, and cyber security;

(2) Improve service reliability while serving projected increasing loads, meeting its renewable portfolio standard goals, reducing congestion costs, connecting new generation, and upgrading and modernizing aging infrastructure;

(3) Undertake technology upgrades to transmission and distribution systems; and

(4) Enhance pipeline safety and reliability, and substation investments over the 2015 through 2017 period.

In addition to the above-noted $3.4 billion for 2015 – 2017, SDG&E also explains its estimated $1.1 billion in 2014 investments. SDG&E contends that its proposed planned investments for 2014 through 2017 are necessary for an infrastructure that provides reliable supplies of energy to its service territory in

---

examples of the rapidly changing requirements including natural gas pipeline safety initiatives, asset and cyber-security initiatives and the recent closure of the San Onofre Nuclear Generating Station. SDG&E expects that similar future initiatives and events could trigger a change in projected capital investments in 2014 and beyond.

[3] SDG&E filed its most recent general rate case application, A.14-11-003 in November 2014, where it proposes significant investment to address risk reduction in safety, wildfire, reliability, infrastructure integrity, and cyber security. SDG&E also notes that it has recently created an officer-led division for Enterprise Risk Management to address risk identification and mitigation beyond the financial sphere and for all aspects of its operations.

a safe and environmentally compliant manner while reducing the impact to the communities and areas in which SDG&E operates. Furthermore, SDG&E also contends that its proposed planned investments are necessary to protect against attacks, physical or cyber, on its energy infrastructure, recognize the area's increasing energy demands, and facilitate the goals noted above.

As for the $300 million in additional roll-over long-term debt authority SDG&E requests, in addition to the currently remaining roll-over authority noted above as well as the anticipated shortfall, SDG&E explains the purpose of this additional authority would be to retire or refinance securities previously issued and upon which SDG&E previously paid a fee. SDG&E explains that this additional roll-over authority would give it the flexibility it needs to take advantage of the current interest rates that are near historically low levels as well as enable SDG&E to position itself to act upon other potentially favorable refinancing opportunities that would reduce SDG&E's embedded cost of debt. SDG&E contends these efforts would serve the ratepayers' best interest.

3. Summary of SDG&E's Remaining Long-Term Debt Authorities and Anticipated Needs

Table 1 below summarizes all of SDG&E's current and remaining new long-term debt financing authorities, as previously authorized by the

Commission:

Table 1

SDG&E's CPUC Long-Term Debt & Preferred Authority ($ millions)

	New debt	Rollover debt	New preferred	Rollover preferred
D.93-09-069	**250.00**	-	**100.00**	-
Bank loans	(37.17)	-	-	-
Series TT	(57.65)	-	-	-
Series UU	(16.70)	-	-	-
$1.70 preferred	-	-	(35.00)	-
$1.82 preferred	-	-	(16.64)	-
Series BBB (part)	(138.48)	-	-	-
Remaining authority	-	-	48.36	-
D.04-01-009	**551.43**	**108.58**	**4.00**	**76.00**
CV2004 (part)	-	(4.99)	-	-
Series BBB (part)	(111.52)	-	-	-
Series CCC	(250.00)	-	-	-
Series DDD (part)	(189.91)	-	-	-
Series EEE (part)	-	(103.59)	-	-
Remaining authority	-	-	4.00	76.00
D.06-05-015	**800.00**	-	**200.00**	-
Series DDD (part)	(60.10)	-	-	-
Series EEE (part)	(57.65)	-	-	-
Series FFF	(250.00)	-	-	-
Series GGG	(300.00)	-	-	-
Series HHH (part)	(132.26)	-	-	-
Remaining authority	-	-	200.00	-
D.08-07-029	**687.00**	**413.00**	-	-
Series HHH (part)	(117.74)	-	-	-
Series III	(500.00)	-	-	-
Series JJJ (part)	(69.26)	-	-	-
Series NNN (part)	-	(189.87)	-	-
Remaining authority	-	223.13	-	-
D.10-10-023	**800.00**	-	**150.00**	-
Series JJJ (part)	(280.74)	-	-	-
Series LLL	(250.00)	-	-	-
Series MMM	(250.00)	-	-	-
Series NNN (part)	(19.26)	-	-	-
Remaining authority	-	-	150.00	-
	750.00	-	-	-
Series NNN (part)	(240.87)	-	-	-
Direct Long-Term Loans	(100.00)	-	-	-
Total remaining authority, all decisions	409.13	223.13	402.36	76.00

As of the end of June 2014, SDG&E had just over $409 million in remaining new authority, and SDG&E anticipates issuing $1.4 billion in long-term debt from 2015 through 2017.[4] The resulting anticipated shortfall would be approximately $1 billion. In addition, SDG&E currently has $223 million of remaining roll-over long terms debt authorized in D.08-07-029,[5] for refinancing existing debt; however, SDG&E has long-term debts maturing during 2015 – 2017 of $350 million. The resulting anticipated shortfall would be approximately $130 million.

4. Discussion

SDG&E's planned and necessary investments through 2017 and the related financing needs are reasonable but significantly exceed the currently unused portion of the existing debt authorizations. We therefore find the requested additional financing authorities to be supported by SDG&E's Application and grant SDG&E's Application seeking authorization for additional financial authorities and related relief, as discussed below.

---

4 Based on SDG&E's forecast of uses, the forecast of funds needed by SDG&E over the period 2015-2017 is $1.4 billion. Of this need: (1) $409 million would be provided from current debt securities authority; (2) $9.68 million would be provided from cash from internal sources; and (3) $1 billion would be provided from new debt securities, as requested in this Application.

5 "Rollover" refers to securities issued for the purpose of refunding or rolling over at maturity securities previously issued and upon which SDG&E paid the fees prescribed by California Public Utilities Code Section 1904.

4.1. Compliance with Public Utilities Code Requirements for Issuance of Securities

SDG&E's requests in its Application are subject to Public Utilities Code[6] §§ 851, 701.5, 816 *et seq*. and 824.

In relevant part, Code § 851 states that no utility shall encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right there under without first having secured from the Commission an order authorizing it to do so.

Code § 701.5, in relevant part, provides:

> … The commission may … authorize an electrical, gas, or telephone corporation to issue any bond, note, lien, guarantee, or indebtedness pledging the utility assets or credits as follows:
>
> (a) For or on behalf of a subsidiary if its revenues and expenses are included by the commission in establishing rates for the electrical, gas, or telephone corporation.
>
> (b) For or on behalf of a subsidiary if it is engaged in a regulated public utility business in this state or in any other state.
>
> (c) For or on behalf of a subsidiary or affiliate if it engages in activities which support the electric, gas, or telephone corporation in its operations or service, these activities are, or will be, regulated either by the commission or a comparable federal agency, and the issuance of the bond, note, lien, guarantee, or indebtedness is specifically approved in advance by the commission.

[6] All references to the Code hereinafter refer to the California Public Utilities Code, unless otherwise noted.

> The commission shall not approve the bond, note, lien, guarantee, or indebtedness unless the commission finds and determines that the proposed financing will benefit the interests of the utility and its ratepayers.

The Commission also has broad discretion under Code §§ 816 *et seq*. to determine if a utility should be authorized to issue debt. Where necessary and appropriate, the Commission may attach conditions to the issuance of debt and stock to protect and promote the public interest. Pursuant to Code § 817, a public utility may only issue and use financing for the following purposes:

> (a) For the acquisition of property.
>
> (b) For the construction, completion, extension, or improvement of its facilities.
>
> (c) For the improvement or maintenance of its service.
>
> (d) For the discharge or lawful refunding of its obligations.
>
> (e) For the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, for use within the service area of the public utility.
>
> (f) For the reorganization or readjustment of its indebtedness or capitalization upon a merger, consolidation, or other reorganization.
>
> (g) For the retirement of or in exchange for one or more outstanding stocks or stock certificates or other evidence of interest or ownership of such public utility, or bonds, notes, or other evidence of indebtedness of such public utility, with or without the payment of cash.
>
> (h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of

> stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

For all other purposes, not set forth in Code § 817, a utility must use funds from its normal utility operations. Debt securities issued pursuant to Code §§ 817 and 818 must have a term of greater than 12 months. Code § 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, it shall first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied. Code § 818 also requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with the proceeds of the debt authorized is reasonably required for the purposes specified in the order, and unless expressly permitted in an order authorizing debt, those purposes are not, in whole or in part, reasonably chargeable to expenses or to income.

Finally, pursuant to Code § 824, the commission may require public utilities to account for the disposition of the proceeds of all sales of stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness, in such form and detail as it deems advisable, and may establish such rules as it deems reasonable and necessary to insure the disposition of such proceeds for the purposes specified in its order.

Here, the Application is based on SDG&E's forecasted sources and projected uses of funds that illustrate SDG&E's requested need for funding for: (a) various projects; (b) reimbursement of its treasury for monies expended or planned to be expended for the expansion and enhancement of its utility plant; (c) funds to cover potential contingencies such as unforeseen capital needs or financial market disruptions; and (d) sufficient financing authority to enable SDG&E to respond to the maturing debts and efficiently refinance securities with short maturities that may be necessary, if another market dislocation similar to that of 2008-2009 occurs.

Table 2 summarizes all of SDG&E's current-remaining new long-term debt financing authorities, as previously authorized by the Commission, its anticipated needs, and its anticipated shortfalls:

Table 2
Table of Sources and Uses

	(Millions of Dollars)					
USES OF FUNDS	**2014**	**2015**	**2016**	**2017**	**2018**	**TOTAL**
Construction Less Advances	$59,441	$107,079	$74,274	$36,276	$34,265	$311,335
Refinance Short-term Debt	$52,706	$24,328	$34,734	$33,527	$874	$146,169
Refinance Long-term Debt	0	0	$10,000	0	$52,300	$62,300
Reimburse Treasury	0	0	0	0	0	$0
Total Uses of Funds	**$112,147**	**$131,407**	**$119,008**	**$69,803**	**$87,439**	**$519,804**
SOURCES OF FUNDS						
Cash from Operations	$59,182	$55,364	$66,987	$68,929	$57,340	$307,802
Capital Contribution from Parent	$6,300	$12,000	$0	$0	$0	$18,300
Issue Short-term Debt	$12,715	$47,553	$32,321	$874	($17,201)	$76,262
Total Source of Funds	**$78,197**	**$114,917**	**$99,308**	**$69,803**	**$40,139**	**$402,364**
Sub-Difference between Uses and Sources	**($33,950)**	**($16,490)**	**($19,700)**	**$0**	**($47,300)**	**($117,440)**
Existing Debt Authority						$25,000
Surplus (Deficient) Financial Sources[1]						**($92,440)**

[1] Surplus (deficit) equals total financial requirements less total source of funds.

Upon review,[7] we find that SDG&E's proposed purposes for the proceeds from the debt capital financings are authorized uses under Code § 817. Pursuant to Code § 816 *et seq*., we also find that SDG&E has sufficiently substantiated the need for issuance of new debt securities, finding that the money, property, or labor to be procured or paid for by the issue are necessary and for proper purposes.

More specifically, given that SDG&E's request for additional long-term debt securities authorization closely reflects its net anticipated needs, the Commission finds it reasonable to authorize SDG&E to issue up to $1 billion of new long-term debt securities. This new additional financing authority would allow SDG&E to adequately fund its capital expenditure plans through 2017, and reimburse itself for money expended from income or treasury funds, to the extent authorized by Code § 817(h). We therefore grant SDG&E authority to issue up to $1 billion of new additional long-term debt securities and for the aforementioned purposes and terms prescribed in this decision.

In addition, SDG&E's request for authorization of $300 million in additional roll-over long-term debt authority is well reasoned and justified. In addition to retiring or refinancing securities previously issued (and upon which SDG&E previously paid a fee), this additional roll-over authority would give it the financing flexibility to take advantage of the current favorable interest rates as well as enable it to position itself to act upon other potentially favorable refinancing opportunities. Ultimately, this authorization would give SDG&E

---

[7] We rely on SDG&E's forecast to determine the forecast of sources and projected uses set forth its Application.

the financing options and flexibility to take advantage of opportunities to reduce SDG&E's embedded cost of debt. We believe such approach would be in the ratepayers' best interest, and we authorize SDG&E's request for authorization of $300 million in additional roll-over long-term debt authority.

The Commission's grant of financing authority to a utility does not obligate the Commission to approve any capital projects. This financing authority provides SDG&E with sufficient liquid resources to timely finance its upcoming public utility projects and to reimburse its treasury. Review of the reasonableness of capital projects will occur, as needed, through the normal regulatory process of each capital project. Therefore, no part of the approval of this financing request should be construed as prejudgment on the merits of any forecasted SDG&E projects.

4.2. Authorized Types of Securities

In its Application, SDG&E requests most of the same types of debt securities previously approved by the Commission in D.12-03-005 as part of SDG&E's prior long-term debt financing application, A.11-10-016. Here, we similarly authorize SDG&E's Application's proposed debt securities.

In general, each series of debt securities is expected to have a maturity of between one (1) year and one hundred (100) years. With the exception of long-term loans and accounts-receivable financings (as discussed below), a utility may issue each issue of debt securities under an indenture or a supplement to an existing indenture for delivery to the trustee for such issue. The indenture or supplemental indenture would set forth the terms and conditions of each issue of debt securities.

4.2.1. Secured Debt

SDG&E seeks authority to issue secured debt. This request presumably is made pursuant to Code § 851. In relevant part, Code § 851 states that no utility shall encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right there under without first having secured from the Commission an order authorizing it to do so. Consistent with Code § 851, we authorize SDG&E to sell, lease, assign, mortgage, or otherwise dispose of or encumber its utility property, in order to secure its new debt.

We authorize secured debt which a utility may secure through a lien on property or through other credit-enhancement arrangements. SDG&E will issue First Mortgage Bonds (FMBs) in accordance with SDG&E's trust indenture dated July 1, 1940, as amended and supplemented and which heretofore has been filed with the Commission. The supplemental indenture delivered in connection with each new series of FMBs will be in a form consistent with supplemental indentures previously filed with the Commission.

SDG&E may sell secured debt to either domestic or foreign investors. SDG&E may sell to underwriters who in turn will offer the secured debt to investors. Otherwise, it may sell directly to investors either with or without the assistance of a private placement agent. SDG&E may register secured debt with the Securities and Exchange Commission (SEC), depending on the method of offering and sale, and may list the secured debt on a stock exchange. In certain instances, SDG&E may enter into contractual agreements whereby a third party will provide appropriate credit facilities as security for a secured debt issue. SDG&E will include the cost of the credit facilities within the calculation of the issue's overall cost.

4.2.2. Unsecured Debt (also referred to as Debentures)

We authorize debentures which SDG&E may sell to either domestic or foreign investors. SDG&E may sell them to underwriters who in turn will offer the debentures to investors, or it may sell them directly to investors either with or without the assistance of a placement agent. SDG&E may register debentures with the SEC and may list them on a stock exchange. Unsecured debt may be senior or subordinated.

4.2.3. Foreign Capital Markets

We authorize SDG&E to issue debt securities in foreign capital markets which may be denominated in, or proceeds from their sale received in, United States (U.S.) dollars or in other currencies. International bond issuance is commonly separated into two categories, U.S.-pay and foreign- pay. The U.S.-pay international bond market consists primarily of Eurodollar bonds, which are issued and traded outside of the U.S. and denominated in U.S. dollars. The foreign-pay, or simply foreign, bond market describes issues sold in a country outside of the U.S. in the local currency.

In certain circumstances, international borrowing may become attractive to a U.S. utility. For instance, competition among global investment banks may create low-cost offshore funding opportunities. Foreign bond markets may have a better appetite for a particular debt security than domestic markets. Finally, a domestic utility may find international markets more accessible during a time when domestic bond markets are not. To reduce or eliminate the risk of currency fluctuations, SDG&E may engage in currency swaps (defined below) or other arrangements.

4.2.4. Direct Long-Term Loans

We authorize SDG&E to enter into long-term loans, debt securities with a maturity of greater than one year, pursuant to a line of credit with banks, insurance companies, or other financial institutions. SDG&E may enter into loans when it finds that interest rates or other circumstances make it attractive to do so.

4.2.5. Accounts-Receivable Financing

Consistent with Code § 851, we authorize SDG&E to issue debt securities secured by a pledge, sale or assignment of its accounts receivable. An accounts receivable financing would be considered an encumbrance on utility properties to the extent that accounts receivable are considered to be utility property. SDG&E anticipates that the transactions would be structured to be a true sale for bankruptcy purposes, a sale for financial reporting, and debt for tax purposes although other structures may be developed using accounts receivable as security or collateral.

4.2.6. Tax-Exempt Debt

When necessary to reduce the cost of SDG&E's debt securities, we authorize SDG&E to place its debt securities with one or more political subdivisions (Authority) and unconditionally guarantee or otherwise secure such Authority's obligations with respect to its issuances of tax-exempt debt in connection with the financing of SDG&E's facilities.

Consistent with D.10-10-023,[8] we grant SDG&E authority to issue debt securities through one or more Authority to obtain tax-exempt status for

---

[8] *See* D.10-10-023 at Ordering Paragraph (OP) 7.

the securities, whenever SDG&E's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, we authorize SDG&E to unconditionally guarantee or otherwise secure the Authority's obligations to its debt holders. As a means of securing the Authority's obligations, SDG&E may issue and pledge or deliver bonds in an equal principal amount to the Authority.

SDG&E anticipates having the ability to use the tax-exempt option whenever: (a) its facilities qualify for tax-exempt financing under federal law, either as eligible pollution control facilities or facilities that may be financed by tax-exempt revenue bonds under the "two-county" rule, and (b) it receives sufficient "volume cap," or tax-exempt borrowing authority, from the California Debt Limit Allocation Committee (CDLAC). Such tax-exempt financings may be structured substantially as follows:

(1) An Authority would issue and sell one or more series of its bonds, notes, debentures or other securities ("Authority Bonds") to a group of underwriters who would ultimately market such Authority Bonds to investors. Concurrently with the sale and delivery of such Authority Bonds and in consideration for the proceeds of the Authority Bonds, SDG&E would enter into a loan agreement or other security agreement with the Authority, or would enter into an installment- sale agreement with the Authority pursuant to which the eligible facilities would be conveyed to the Authority in consideration for the proceeds of the Authority Bonds, and the eligible facilities would be reconveyed to SDG&E in consideration for its debt securities. The operation and control of such facilities would remain with SDG&E or the project operator at all times.

(2) Concurrently with the sale and delivery of such Authority Bonds, SDG&E would issue and deliver to the Authority,

in consideration of the Authority's obligations set forth in (2) above, SDG&E debt securities plus accrued interest (the terms and conditions of such indebtedness would be substantially consistent with the terms and conditions of such Authority Bonds) or would unconditionally guarantee or otherwise secure such Authority's obligations in respect of the Authority Bonds. All rights and title of such Authority in company debt securities would be assigned to a trustee under an indenture pursuant to which the Authority Bonds would have been issued as security for the purchasers of the Authority Bonds.

4.2.7. Variable-Rate Debt

When necessary to reduce the cost of SDG&E's debt securities, we authorize SDG&E to issue variable-rate debt securities. A variable-rate debt security includes, but is not limited to, debt securities bearing interest based on the London Interbank Offered Rate (LIBOR) or some other referenced interest rate. A variable-rate debt security may also be a debt security for which investors possess a series of periodic, mandatory put options that require SDG&E to repurchase all or a portion of the debt securities, and that SDG&E may couple with a re-marketing obligation of the repurchased debt security.

Certain variable-rate debt securities require credit support, such as bank lines. These bank lines may be in the form of a short-term or long-term bank line agreement. Since these credit facilities are an integral part of the variable-rate debt issuance, the Commission will not consider such facilities (and any borrowing thereunder) to count against existing short-term debt authorizations.

4.2.8. "Fall-Away" Mortgage Bonds

When necessary to reduce the cost of SDG&E's debt securities, we authorize SDG&E to issue debt that is initially secured and subsequently convertible into unsecured debt, known as "fall-away bonds." These fall-away bonds are initially secured under their indenture by collateral FMBs issued in equal principal amount under the existing 1940 first mortgage indenture and delivered to the fall-away indenture trustee. Subsequent to the redemption or maturity of all outstanding FMBs (other than the collateral FMBs held by the fall- away indenture trustee) the fall-away bonds will become unsecured general obligations of SDG&E. The fall-away bonds' indenture will contain a negative pledge clause, which provides that the newly-unsecured obligations will be secured equally with any secured bonds that may be issued in the future.

4.3. Securities Enhancements

In its Application, SDG&E requests authorization of:

(1) Certain securities enhancements to improve the terms and conditions of its new issuances of debt securities, and to lower the overall cost of money for the benefit of the ratepayers; and

(2) Certain features in its debt securities or enter into certain derivative transactions related to underlying debt.

These requests are nearly identical to the requests SDG&E made in A.11-10-016, and the Commission approved in D.12-03-005. The Commission has also previously found these same proposed securities enhancements prudent and authorized SDG&E to use them in D.10-10-023[9] and D.08-07-029.[10]

[9] *See* D.10-10-023 at OP 8.

[10] *See* D.08-07-029 at OP 3.

In appropriate contexts, such measures would improve the terms and conditions of SDG&E's debt securities and also lower the overall cost of money for the benefit of the ratepayers.

SDG&E also requests that such debt securities enhancement and interest rate management features not be counted as additional financing against its authorized amount of new debt securities and equity securities, which is in compliance with the New Financing Rule. As SDG&E's requests are in compliance with the New Financing Rule, we authorize SDG&E to use its requested debt securities enhancement and interest rate management features, and to exclude the amount of such features from SDG&E's amount of new debt securities authorized herein.

We authorize SDG&E to use these previously approved forms of securities enhancements, as discussed further below, to lower the overall cost of money for the benefit of the ratepayers.

4.3.1. Put Options

When necessary to reduce the cost of SDG&E's debt securities, we authorize SDG&E to include a put option. This feature grants to a Debt Security owner the right to require SDG&E to repurchase all or a portion of that holder's securities, commonly referred to as "putting" the security back to the company. Under this arrangement, debt holders accept a lower interest rate in exchange for protection guarantee against rising interest rates.

4.3.2. Call Options

When necessary to reduce the cost of SDG&E's debt securities, we authorize SDG&E to retain the right to retire, fully or partially, a debt security before the scheduled maturity date. This is commonly referred to as "calling" the security. This permits SDG&E, to replace the bond issue with a lower-cost issue in the event of a fall of market rates, and produces a positive net benefit to ratepayers.

4.3.3. Sinking Funds

When necessary to reduce the cost of SDG&E's debt securities, we authorize SDG&E to use a sinking fund. A sinking fund typically operates in one of two ways: 1) SDG&E may set aside a sum of money periodically so that at the maturity date of the bond issue there is a pool of cash available to redeem the issue, or 2) SDG&E may periodically redeem a specified portion of the bond issue. Typically, SDG&E would have the right to meet its sinking fund obligations in the latter fashion by either calling a certain number of bonds or purchasing the bonds in the open market.

4.3.4. Interest Rate Swaps

When necessary to reduce the cost of SDG&E's debt securities, we authorize SDG&E to use an interest rate swap which is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical interest rate swap, one party pays the other fixed-rate interest while the other, in turn, pays floating rate interest. Both payment obligations are based on a notional principal amount (i.e., no principal exchanged). Utilities generally use swaps to reduce either fixed-rate or floating-rate costs, or to convert fixed-rate borrowing to floating.

4.3.5. Caps and Collars

In order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, we authorize SDG&E to negotiate some type of maximum rate, usually called a cap. In that case, even if variable rates increase above the cap (or "ceiling") rate, SDG&E would only pay the ceiling rate. In addition to the ceiling rate, sometimes a counterparty will desire a "floor" rate.

In the event that the variable rate falls below the floor rate, SDG&E would pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate collar because this arrangement restricts SDG&E's interest expense to a band negotiated by SDG&E and the counterparty.

4.3.6. Currency Swaps

When necessary to hedge exposures created by debt securities denominated in foreign currencies, we authorize SDG&E to use a currency swap. Currency swap is an arrangement in which one party agrees to make periodic payments in its domestic currency, based on either fixed or floating interest rates, to a counterparty, which in turn makes periodic payments to the first party in a different currency. The payments are based on principal amounts that the parties exchange at the initiation of the swap and re-exchange at maturity. Currency swaps are useful in the management of exchange risk and should be used when necessary to hedge exposures created by debt securities denominated in foreign currencies.

4.3.7. Credit Enhancements

When necessary to reduce interest costs or improve other credit terms, we authorize SDG&E to obtain credit enhancements for debt securities, such as letters of credit, standby bond purchase agreements, surety bonds or insurance policies, or other credit support arrangements. SDG&E may include such credit enhancements to reduce interest costs or improve other credit terms; and SDG&E would include the cost of such credit enhancements in the cost of the debt securities.

4.4. Hedging the Issuance of Securities

SDG&E, in its Application, also seeks authorizations to hedge the issuance of debt securities, under certain circumstances. For instance, compliance with legal, regulatory, and administrative matters may preclude SDG&E from acting on a low-cost funding opportunity during a time of market volatility. Conversely, SDG&E may have an immediate need for funds, but be reluctant to fix its cost at prevailing interest rates. Issuance-hedging strategies will provide SDG&E the ability to enter financial markets at times when interest rates or other circumstances appear most favorable. SDG&E requests in its Application the same types of issuance-hedge techniques requested in A.11-10-016. The Commission found those techniques to be prudent and approved them in D.12-03-005. We likewise find those techniques prudent and authorize SDG&E to issue the types of debt securities it proposed in its Application as discussed below.

4.4.1. "Price Today, Fund Later" Strategies

The three hedge techniques described below are authorized and allow SDG&E to lock in today's interest rate and issue securities at some later date.

Treasury Lock: SDG&E may use this approach to lock in the Treasury component of SDG&E's borrowing cost. SDG&E's borrowing cost (i.e., the interest rate paid on bonds) is comprised of two components: the yield on US Treasury bonds of comparable maturity plus the credit spread, and the market's assessment of SDG&E's ability to service its debt over time. The Treasury lock approach can determine in advance the Treasury-yield component of the interest rate that SDG&E will pay on a future bond offering.

SDG&E can delay securities issuance and capture the current Treasury yield by entering into a Treasury lock. If interest rates rise during the hedge period, SDG&E will unwind the hedge at a profit; this will offset the higher coupon of the newly issued securities. If interest rates decline, SDG&E will unwind the hedge at a loss, but this will be offset by the lower cost of the newly issued securities.

Treasury Options: The purchase of Treasury put options is an alternative to the Treasury lock. In this transaction, SDG&E may purchase put options entitling it to sell Treasury securities of a maturity comparable to that of the contemplated security issuance at a specified yield (the "strike yield") at any time before the option's expiration date. If interest rates rise during the hedge period, SDG&E will unwind the hedge at a profit; this will offset the higher coupon of the newly issued securities. If interest rates decline, SDG&E will unwind the hedge at a loss, but this will be offset by the lower cost of the newly issued securities.

Interest Rate Swaps: A forward-starting interest rate swap allows SDG&E to delay a securities issuance and capture current yields. As the fixed-rate payer in an interest rate swap, SDG&E hedges its borrowing cost: if interest rates rise, unwinding the swap at a profit offsets higher borrowing costs. Conversely, if rates decline, lower borrowing costs offset the loss caused by unwinding the swap.

4.4.2. "Fund Today, Price Later" Strategies

The Commission authorizes the hedges described below. These hedges allow SDG&E to immediately fund and price the securities at some future date.

Long Hedge: This approach allows SDG&E to issue the securities now and capture the current credit spread, but leave the all-in cost of the securities issue open. SDG&E establishes a long hedge by issuing securities today and investing the proceeds in Treasury securities of a comparable maturity. If interest rates subsequently decline, the gain in the value of the Treasury portfolio will compensate SDG&E for the lost opportunity to finance at lower rates. On the other hand, if rates rise, the interest expense savings realized by issuing immediately will be offset by the decline in value of the Treasury portfolio. Thus, the Treasury component of SDG&E's effective borrowing cost will be determined by the Treasury rates prevailing when it chooses to unwind the hedge; the credit spread is determined at the time of issuance.

Treasury Options: The purchase of Treasury call options is an alternative to the long hedge. With this approach, SDG&E would issue securities today and purchase call options on Treasury securities of a comparable maturity. Such a call option allows the holder to purchase Treasury securities at a specified yield (the "strike yield") any time before the expiration date. If rates decline below the strike yield, exercising the option produces a gain used to offset the interest cost of the securities issued today. If interest rates rise above the strike yield, the option will expire unexercised. In this case SDG&E benefits from the lower borrowing rate.

Interest Rate Swaps: A forward-starting interest rate swap allows SDG&E to issue securities immediately and benefit from a subsequent fall in interest rates. As the floating-rate payer in an interest rate swap, SDG&E hedges its borrowing cost: if interest rates decline, unwinding the swap at a profit will compensate SDG&E for the lost opportunity to finance at lower rates. Conversely, if rates rise, the interest expense savings realized by issuing immediately will be offset by the loss caused by unwinding the swap.

5. Compliance with New Financing Rule

In D.12-06-015, the Commission adopted the Utility Long-Term Debt Financing Rule (the "Financing Rule"), replacing its prior Competitive Bidding Rule that had previously governed the issuance of debt securities. SDG&E's

Application complies with the Financing Rule. Under the Financing Rule, four general mandates are relevant to SDG&E:[11]

1. Public utility long-term debt issues shall be conducted in a prudent manner consistent with market standards that encompass competition and transparency, with the goal of achieving the lowest long-term cost of capital for ratepayers.

2. Public utilities shall determine the financing terms of their debt issues with due regard for their financial condition and requirements, and current and anticipated market conditions.

3. Utilities with $25 million or more of annual California operating revenues, requesting financing authority, shall use their best efforts to encourage, assist, and recruit Women-, Minority-, Disabled Veteran-Owned Business Enterprises in being appointed as lead underwriter, book runner, co-manager, or in other roles in the issuance of debt securities offerings.

4. Debt Enhancement Features shall only be used in connection with debt securities financings, and may include but are not limited to: put options, call options, sinking funds, swaptions, caps, collars, currency swaps, credit enhancements, capital replacement, interest deferral, special-purpose entity transactions, delayed drawdown, treasury lock, treasury options, and interest rate swaps.

SDG&E's Application pledges and demonstrates compliance with all four requirements. SDG&E expressly guarantees that it will restrict its swap

[11] D.12-06-015 at A3-A6.

and hedging transactions,[12] and "comply with the debt-issuance reporting requirements defined in General Order (GO) 24-C,"[13] pursuant to paragraphs 6(c) and 6(c)(i) of the Financing Rule, respectively. We find the Application and the requests therein to be in compliance with the Commission's Financing Rule.

6. Record and Reporting Requirements

Consistent with Code § 824, GO 24-C and D.12-06-015, SDG&E must maintain records to identify the specific securities it issued pursuant to this decision, demonstrate that it has used proceeds from such securities only for public utility purposes and comply with the debt-issuance reporting requirements defined therein.

7. Diverse Business Enterprises

The Commission recently adopted an amended GO 156 that extends the Utilities' Supplier Diversity Program provisions of GO 156 to business enterprises owned by Lesbian, Gay, Bisexual and/or Transgender (LGTB) business enterprises (LGBTBEs) to comply with the legislative mandates of Assembly Bill 1678.[14] Thus, in addition to what is planned and requested in its Application, SDG&E should also use its best efforts to encourage, assist, and include LGBTBEs in various types of underwriting roles on debt securities offerings consistent with the Commission's amended GO 156.

---

[12] *See* A.14-09-008, Application of San Diego Gas & Electric Company at 17.

[13] *Id.*

[14] *See* D.15-06-007.

8. Fees and Compliance with Code § 1904(b)

Whenever the Commission authorizes a utility to issue debt and preferred stock, the Commission must charge and collect a fee pursuant to Code §§ 1904(b) and 1904.1. SDG&E shall remit the required $506,000 fee to the Commission's Fiscal Office within 30 days of the issuance date of this decision. The authority granted by this order shall not become effective until SDG&E remits the $506,000 fee to the Commission's Fiscal Office. The fee is calculated as follows:

Table 3
Calculation of Fee

Securities	Amount of Securities	Rate per $1,000 of Proposed Securities	Total Fee
$______ Million of Debt Securities	$1,000,000	$2	$2,000
	$9,000,000	$1	$9,000
	$990,000,000	$0.50	$495,000
		Subtotal	**$506,000**

9. Financial Information

We have placed SDG&E on notice that the reasonableness of any resulting interest rate and cost of money arising from the issuance of debt securities, as well as capital structures, are normally subject to review in the appropriate cost of capital or general rate case proceeding. Therefore, we will not make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes or the appropriate cost of money. We do not make a finding in this decision on the reasonableness of SDG&E' proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in a general rate case or specific application. The authority to issue securities is distinct from the authority to undertake construction or the right to recover the cost of capital in rates.

10. California Environmental Quality Act

Under the California Environmental Quality Act (CEQA) and Rule 2.4 of the Commission's Rules of Practice and Procedure, the Commission must consider the environmental consequences of projects that are subject to our discretionary approval. Thus, we must consider whether approval of this application will alter an approved project, result in new projects or change operations in ways that have an environmental impact.

According to SDG&E, it is unknown at this time what the specific project activities and new construction associated with the authority to issue debt will be. The application specifies that the purpose of the application is to secure approval for debt securities, to be used partly for acquisition of property, construction, completion, extension, or improvement of SDG&E facilities.

SDG&E has general plans for the use of the debt proceeds, but it does not have the basic details regarding those contemplated projects. SDG&E simply possesses inadequate basic information regarding future projects that might be financed through the contemplated debt securities. However, securing the financing authority now will put SDG&E in a better position to undertake plant improvements without delay when construction plans are finalized.

SDG&E will comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with the proposed debt issue.

Since the details of the proposed improvements are unknown at this time, we will put SDG&E on notice that our approval to issue debt does not constitute an implied or expressed waiver of applicable environmental regulations.

This decision does not authorize any capital expenditures or construction projects. New construction projects which SDG&E intends to finance via this application should undergo a CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b). Ongoing projects have already been subject to any necessary CEQA review undertaken prior to SDG&E receiving a certificate of public convenience and necessity or permit to construct. To the extent capital expenditures are financed with the proceeds of the long-term debt issued pursuant to this decision, CEQA review should occur as needed through the regulatory processes applicable to each capital project.

11. Category and Need for Hearings

Through Resolution ALJ 176-3343, dated October 2, 2014, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

12. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2) of the Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

13. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Kimberly H. Kim is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The Commission previously issued D.12-03-005, D.10-10-023, D.08-07-029, D.06-05-015, D.04-01-009, and D.93-09-069 and authorized SDG&E, *inter alia*, to issue debt securities.

2. On September 10, 2014, SDG&E filed A.14-09-008 requesting authorization for additional long-term financing to continue to fund its capital expenditure plan, beyond what was authorized by prior Commission decisions.

3. No protest to the Application has been filed.

4. The Application is based on SDG&E's forecasted sources and projected uses of funds that illustrate SDG&E's requested need for funding for: (a) various projects; (b) reimbursement of its treasury for monies expended or planned to be expended for the expansion and enhancement of its utility plant; (c) funds to cover potential contingencies such as unforeseen capital needs or financial market disruptions; and (d) sufficient financing authority to enable SDG&E to respond to the maturing debts and efficiently refinance securities with short maturities that may be necessary, if another market dislocation similar to that of 2008-2009 occurs.

5. SDG&E's request for authorization to issue up to $1 billion of new long-term debt securities would allow SDG&E to adequately fund its capital expenditure plans through 2017, and reimburse itself for money expended from income or treasury funds, to the extent authorized by Code § 817(h).

6. SDG&E's request for authorization of $300 million in additional roll-over long-term debt authority would be used to retire or refinance securities previously issued (and upon which SDG&E previously paid a fee) and would give SDG&E the financing options and flexibility to take advantage of

opportunities to reduce SDG&E's embedded cost of debt which would ultimately serve the ratepayers' best interest.

7. Authorizing certain securities enhancements and features in its debt securities or entering into certain derivative transactions related to underlying debt, in appropriate context, would enable SDG&E to improve the terms and conditions of SDG&E's debt securities and also lower the overall cost of money for the benefit of the ratepayers.

8. Authorizing SDG&E to hedge the issuance of debt securities, under certain circumstances, would enable SDG&E to enter financial markets at times when interest rates or other circumstances appear most favorable.

10. The Commission's grant of financing authority to a utility does not obligate the Commission to approve any capital projects; but instead, it provides the utility with sufficient liquid resources to timely finance its upcoming public utility projects and to reimburse its treasury.

11. Review of the reasonableness of capital projects will occur, as needed, through the normal regulatory process of each capital project.

12. Whenever the Commission authorizes a utility to issue debt, the Commission must charge and collect a fee pursuant to Code §§ 1904(b) and 1904.1.

13. D.12-06-015 adopted the New Financing Rule.

14. The Commission recently adopted an amended GO 156 to extend the Utilities' Supplier Diversity Program provisions to businesses owned by LGBTBEs in the proceeding, Order Instituting Rulemaking 14-10-009.

15. Resolution ALJ 176-3343 preliminarily categorized this proceeding as ratesetting and determined that a hearing would not be necessary.

Conclusions of Law

1. Pursuant to Code § 816 *et seq*., SDG&E has sufficiently substantiated the need for issuance of new debt securities, finding that the money, property, or labor to be procured or paid for by the issue are necessary and for proper purposes.

2. SDG&E should be authorized to issue new additional debt securities of up to $1 billion, including: secured debt, unsecured debt, foreign capital markets, direct long-term loans, accounts-receivable financing, tax-exempt debt, variable-rate debt, and "fall-away" mortgage bonds.

3. SDG&E should be authorized to issue roll-over debt securities in an aggregate principal amount of up to $300 million of debt capital, in addition to previously-authorized amounts.

4. Pursuant to Pub. Util. Code § 851, SDG&E should be authorized to encumber its utility property, including but not limited to accounts receivable and utility plant, to secure debt securities, authorized herein.

5. SDG&E should be authorized to use the following kinds of debt enhancements to manage interest rate risks of its debt securities authorized herein: put options; call options; sinking funds; caps and collars; currency swaps; credit enhancements; hedging strategies; treasury locks; various types of treasury options; various types of interest rate swaps; and long hedges.

6. SDG&E's Application and its requests therein comply with the Commission's Financing Rule.

7. Consistent with Code § 824, GO 24-C and D.12-06-015, SDG&E should maintain records to identify the specific securities it issued pursuant to this decision, demonstrate that it has used proceeds from such securities only for

public utility purposes and comply with the debt-issuance reporting requirements defined therein.

8. The order herein should not be construed as a finding of the reasonableness of SDG&E's proposed construction plan or expenditures, the resulting plant balances in rate base, the capital structure, or the cost of money, nor does it indicate approval of matters subject to review in a general rate case or other proceedings.

9. SDG&E should remit a check for $506,000, as required by Code §§ 1904(b) and 1904.1, within 30 days of the issuance date of this decision.

10. The authority granted by this Decision should not become effective until SDG&E has paid the fees prescribed by §§ 1904(b) and 1904.1.

11. SDG&E should not use the proceeds from the debt authorized by this decision to fund its capital projects until SDG&E has obtained all required Commission approvals for the capital projects, including any required environmental review under CEQA.

12. The order herein should not be construed as an approval or commitment to any specific project which may result in a potentially significant impact on the environment; thus it is not a project subject to CEQA.

13. The authority granted SDG&E herein is in compliance with Code §§ 701.5, 816, 817, 818, 824, and 851.

14. SDG&E should use its best efforts to encourage, assist, and include LGBTBEs in various types of underwriting roles on debt securities offerings consistent with the Commission's amended GO 156.

15. This proceeding should be closed.

ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized, pursuant to and in compliance with Public Utilities Code §§ 701.5, 816, 817, 818, 824, and 851, to: a) issue new debt securities up to $1 billion for terms of greater than 12 months, and b) issue new debt securities in the form of: First Mortgage Bonds; debentures; direct long-term notes pursuant to a line of credit with banks, insurance companies or other financial institutions; accounts receivable financing; tax-exempt debt issued through one or more political subdivisions; variable rate debt; unsecured debt (senior and unsubordinated); "Fall-Away" mortgage bonds; overseas indebtedness; and foreign securities; and issuing such indebtedness as secured or unsecured, in domestic or foreign markets.

2. San Diego Gas & Electric Company is authorized to issue roll-over debt securities in an aggregate principal amount of up to $300 million in debt capital, in addition to the previously-authorized amounts.

3. Pursuant to Public Utilities Code § 851, San Diego Gas & Electric Company is authorized to encumber its utility property including, but not limited to, accounts receivable and utility plant to secure the debt securities authorized herein.

4. San Diego Gas & Electric Company is authorized to utilize the following kinds of debt enhancements to manage interest rate risks of its debt securities authorized herein: put options; call options; sinking funds; interest rate swaps; caps and collars; currency swaps; credit enhancements; capital replacements; special-purpose entity transactions; hedging strategies; treasury locks; various types of treasury options; various types of interest rate swaps; and long hedges.

5. San Diego Gas & Electric Company may not use the proceeds from the debt authorized by this decision to fund its capital projects until it has obtained all required California Public Utilities Commission approvals for the projects, and has complied with all environmental laws and regulations applicable to the projects.

6. San Diego Gas & Electric Company shall maintain records to identify the specific securities it issued pursuant to this decision, demonstrate that it has used proceeds from such securities only for public utility purposes and comply with the debt-issuance reporting requirements defined in and consistent with Public Utilities Code Section 824, General Order 24-C and Decision 12-06-015,.

7. San Diego Gas & Electric Company (SDG&E) shall remit a check for $506,000, as required by Public Utilities (Pub. Util.) Code Sections 1904(b) and 1904.1 of the Pub. Util. Code, to the California Public Utilities Commission's Fiscal Office at 505 Van Ness Avenue, Room 3000, San Francisco, CA 94102. The number of this Decision must appear on the face of the check. This payment must be remitted within 30 days of the issuance date of this decision. The authority granted by this Decision is effective once SDG&E has paid the fees prescribed by Pub. Util. Code §§ 1904(b) and 1904.1.

8. Application 14-09-008 is closed.

This order is effective today.

Dated _______________, at San Francisco, California.